

CLOSED-END CREDIT

OVERVIEW

Examination review procedures for closed-end credit have been segregated in the following way:

Primary residence purchase, refinance, permanent construction, or assumption loans

Home improvement and home equity loans secured by a principal dwelling

Interim construction loans

Consumer loans

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DEFINITION(S)

Closed-end credit means consumer credit other than open-end credit.

Closed-End Credit

DEFINITION(S)
(cont'd)

Refer to the Supplement to Approved Loans section of this manual.

Refinance

**PRIMARY
RESIDENCE
LOANS**

The procedures in this section are to be used to review primary residence loans for the following purposes:

Purchase
Refinance
Permanent construction
Assumption

Loan samples should be selected in accordance with the sampling procedures.

Ensure that your sample includes each type of the above-listed loans, as applicable.

NOTE: Refer to the Introduction to Approved Loans section of this manual for General Truth in Lending Procedures.

At Application

Fixed-rate loans require no Truth in Lending procedures "at application". Proceed to "at application" procedures for Real Estate Settlement Procedures.

Variable-rate loans require certain procedures "at application".

Ensure that the following disclosures for each variable-rate loan have been provided if the annual percentage rate may increase after consummation in a transaction secured by the consumer's principal dwelling **with a term greater than one year**.

Truth In Lending (TIL)	
1.	The Consumer Handbook on Adjustable Rate Mortgages (CHARM) booklet or a suitable substitute if you are reviewing an adjustable rate mortgage loan with a term of greater than one year. (Does not apply to assumptions). (226.19(b)(1))
2.	A loan program disclosure for each variable-rate program in which the consumer expresses an interest, which should include the following as applicable:

**PRIMARY
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LOANS
(cont'd)**

**At Application
(cont'd)**

- a. The fact that the interest rate, payment, or term of the loan can change.
- b. The index or formula used in making adjustments, and a source of information about the index or formula. (The index may be internally defined by the financial institution.) (See Official Staff Commentary.)
- c. An explanation of how the interest rate and payment will be determined, including an explanation of how the index is adjusted, for example, by the addition of a margin.
- d. A statement that the consumer should ask about the current margin value and current interest rate.
- e. The fact that the interest rate will be discounted, and a statement that the consumer should ask about the amount of the interest rate discount.
- f. The frequency of interest rate and payment changes.
- g. Any rules relating to changes in the index, interest rate, payment amount, and outstanding loan balance including, for example, an explanation of interest rate or payment limitations, negative amortization, and interest rate carryover.
- h. A historical example, based on a \$10,000 loan amount, illustrating how payments and the loan balance would have been affected by interest rate changes implemented according to the terms of the loan program.

The example shall be based upon index values beginning in 1977 and be updated annually until a 15-year history is shown. Thereafter, the example shall reflect the most recent 15 years of index values. The example shall reflect all significant loan program terms, such as negative amortization, interest rate carryover, interest rate discounts, and interest rate and payment limitations, that would have been affected by the index movement during the period. If the program is less than 15 years old, the history should only cover the length of the life of the program. Also, the index rates should only go back as far as the financial institution can reasonably determine the rates.

- i. An explanation of how the consumer may calculate the payments for the loan amount to be borrowed based on the most recent payment shown in the historical example.

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At Application
(cont'd)**

- j. The maximum interest rate and payment for a \$10,000 loan originated at the most recent interest rate shown in the historical example assuming the maximum periodic increase in rates and payments under the program, and the initial interest rate and payment for that loan.
- k. The fact that the loan program contains a demand feature.
- l. The type of information that will be provided in notices of adjustments and the timing of such notices.
- m. A statement that disclosure forms are available for the financial institution's other variable-rate loan programs.

(226.19(b)(2))

Real Estate Settlement Procedures

- 1. If a face to face interview was not conducted, determine that a mortgage servicing disclosure statement was provided to the applicant(s) with the following information:
 - a. Whether the servicing of any such loan may be assigned, sold, or transferred to any other person at any time while such loan is outstanding. (If the financial institution does not service federally related mortgage loans, the disclosure may consist of a statement of intent to assign or transfer the servicing of the mortgage.)
 - b. For each of the most recent three calendar years completed (at the time of application), the percentage (rounded to the nearest quartile) of loans made by the financial institution for which the servicing has been assigned, sold, or transferred as of the end of the most recent calendar year completed does not require the inclusion of any loans the servicing of which has been assigned, sold, or transferred by the person making the loan to a transferee servicer that is an affiliate or subsidiary of the financial institution. (If the percentage of transfers are less than 12.5%, the word "nominal" may be used instead of a percentage.)
 - c. Required language regarding transfer practices and requirements, complaint resolution, and damages and costs.

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At Application
(cont'd)**

- d. A statement as to the lender's capacity to service covered loans, and the best available estimate of the percentage of loans made in the 12-month period beginning upon origination for which the servicing will be assigned, sold, or transferred. This percentage is to be expressed as one of four ranges: 0-25%, 26-50%, 51-75%, or 76-100%.
- e. A signed written acknowledgment of the applicant, and co-applicant, if any, that the applicant has read and understood the disclosure.

(3500.21(b))

**Within 3
Business Days of
Receipt of a
Written
Application**

For a loan to be subject to the three business days timing requirements of Truth in Lending, it must be a residential mortgage transaction: a transaction in which a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or equivalent consensual security interest is created or retained in the consumer's principal dwelling to finance the acquisition or initial construction of that dwelling. (This does not apply to refinances.)

Truth In Lending (TIL)

- 1. The TIL disclosures will be made by the creditor before consummation. In certain residential mortgage transactions, special timing requirements are set forth in Section 226.19(a), which states that the required disclosures or good faith estimate (GFE) must be given at consummation or within three business days, whichever is earlier. (226.17(b) and 226.19(a))
 - a. Determine that the disclosures are grouped together, segregated from other material, and made clearly and conspicuously in writing in a form the consumer may keep. (226.17(a)(1))
 - b. Determine that the terms "finance charge" and "annual percentage rate" (APR), when required to be disclosed with a corresponding amount or percentage rate, are more conspicuous than any other disclosure. (Those terms need not be more conspicuous than the financial institution's identity.) (226.17(a)(2))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**Within 3
Business Days of
Receipt of a
Written
Application
(cont'd)**

- c. Determine the presence and accuracy of the following items in the TIL disclosure, as applicable:

Refer to the appropriate section of this manual for guidelines for APR calculations.

The identity of the creditor making the disclosures (The financial institution's name is sufficient; however, the address and telephone number may be included.) (226.18(a))

The "amount financed", using that term, and a brief description, such as "the amount of credit provided to you or on your behalf"

The amount financed should be compared to the principal amount on the note. The amount financed should be less than the principal amount if origination fees or other prepaid charges were applicable, otherwise these amounts should be the same. The amount financed is calculated by using the following procedures:

- Determine the principal loan amount or the cash price (subtracting any downpayment)
- Add any other amounts that are financed by the creditor and are not part of the finance charge
- Subtract any prepaid finance charge

(226.18(b))

A separate, written itemization of the amount financed, including:

- The amount of any proceeds distributed directly to the consumer
- The amount credited to the consumer's account with the financial institution
- Any amounts paid to other persons by the creditor on the consumer's behalf (identifying those persons)
- Prepaid finance charges

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**Within 3
Business Days of
Receipt of a
Written
Application
(cont'd)**

A separate, written itemization of the amount financed is not required where a statement is included that the consumer has the right to receive a written itemization and the consumer has not indicated in a space provided that such an itemization is desired.

NOTE: Good Faith Estimates of settlement costs provided for transactions subject to RESPA may be substituted for the disclosures required by Section 226.18(c).

The "finance charge", using that term, and a brief description, such as "the dollar amount the credit will cost you" (The finance charge should include all finance charges outlined in Section 226.4.) (226.18(d))

The "annual percentage rate", using that term, and a brief description, such as "the cost of your credit as a yearly rate"

The APR should be within the allowed tolerance of 1/8 of 1% (0.125) for regular transactions and 1/4 of 1% (0.25) for irregular transactions. (An irregular transaction is one that includes one or more of the following features: multiple advances, irregular payment periods, or irregular payment amounts (other than an irregular first period or an irregular first or final payment)).

Refer to footnotes in Section 226.22 for more guidance. (226.18(e) and 226.22)

If the APR may increase after consummation in a transaction not secured by the consumer's principal dwelling or in a transaction secured by the consumer's principal dwelling with a term of one year or less, the following disclosures are required:

NOTE: Provided CHARM and ARM loan program disclosures required by Section 226.19(b) and 226.18(f)(2) have not been substituted.

- The circumstances under which the rate may increase
- Any limitations on the increase
- The effect of an increase
- An example of the payment terms that would result from an increase

226.18(f)(1)

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**Within 3
Business Days of
Receipt of a
Written
Application
(cont'd)**

If the APR may increase after consummation in a transaction secured by the consumer's principal dwelling with a term greater than one year, the following disclosures should be provided:

- The fact that the transaction contains a variable-rate feature
- A statement that variable-rate disclosures have been provided earlier

(226.18(f)(2))

The number, amounts, and timing of payments scheduled to repay the obligation. The number of payments multiplied by the amount of payments should equal the total of payments. The examiner should verify the number, amounts, and timing of payments with the legal obligation (226.18(g))

- The "total of payments", using that term, and a descriptive explanation, such as "the amount you will have paid when you have made all scheduled payments" (226.18(h))

NOTE: Both the number and amount of payments, as well as the finance charge plus the amount financed should equal total of payments. The total of payments may be omitted in a single-payment transaction; however, this exception does not apply to a transaction calling for a single payment of principal combined with periodic payments of interest.

The fact that the obligation has a demand feature and that the disclosures are based on an assumed maturity of one year if no alternate maturity date is stated (This feature should only be utilized if the loan is truly made "on demand," for example, the loan can be called at any time for any reason.) (226.18(i))

Refer to Regulation Z Official Staff Commentary.

In a credit sale, the "total sale price", using that term, and a descriptive explanation (including the amount of any downpayment), such as "the total price of your purchase on credit, including your downpayment of \$_____" (This could be applicable to a residential mortgage when it concerns financial institution-financed other real estate (ORE).) (226.18(j))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**Within 3
Business Days of
Receipt of a
Written
Application
(cont'd)**

If the obligation includes a finance charge computed from time to time by application of a rate to the unpaid principal balance, a statement indicating whether a penalty may be imposed if the obligation is prepaid in full

If the obligation includes a precomputed finance charge, a statement indicating whether the consumer is entitled to a rebate of any finance charge if the obligation is prepaid in full. The prepayment penalty clause ideally should only be utilized on simple interest notes and the rebate clause should only be utilized on precomputed notes. However, when a simple interest note includes private mortgage insurance the rebate clause should also be utilized. (226.18(k))

Any dollar or percentage charge that may be imposed before maturity due to a late payment (This amount should be compared to what is specified in the legal obligation to ensure the correct terms have been stated.) (226.18(l))

The fact that the financial institution has or will acquire a security interest in the property purchased as part of the transaction or in other property identified by item or type (For residential property, utilizing the "goods or property purchased" clause will suffice.) (226.18(m))

To exclude certain insurance premiums from the finance charge the following conditions must be disclosed:

- For premiums for credit life, accident, health, or loss-of-income insurance:
 - (i) That the insurance coverage is not required by the financial institution
 - (ii) The premium for the initial term of insurance coverage and if the term of insurance is less than the term of the transaction, the term of insurance also shall be disclosed.
 - (iii) That the consumer signed or initialed an affirmative written request for the insurance after receiving the disclosures specified above. (Any consumer in the transaction may sign or initial the request.)

These conditions can be contained within the credit insurance application form, as well as any other separate form. (226.4 (d))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**Within 3
Business Days of
Receipt of a
Written
Application
(cont'd)**

-- For premiums for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property:

- (i) That the insurance coverage may be obtained from a person of the consumer's choice.
- (ii) If the coverage is obtained from or through the creditor, the premium for the initial term of insurance coverage. (If the term of insurance is less than the term of the transaction, the term of insurance shall also be disclosed.)

(226.18(n) and 226.4(d))

The disclosures required to exclude certain security interest charges from the finance charge (226.18(o))

If itemized and disclosed, the following charges may be excluded from the finance charge:

- Taxes and fees prescribed by law that actually are or will be paid to public officials for determining the existence of or for perfecting, releasing, or satisfying a security interest
- The premium for insurance in lieu of perfecting a security interest to the extent that the premium does not exceed the fees described above that otherwise would be payable

(226.4(e))

A statement that the consumer should refer to the appropriate contract document for information about nonpayment, default, the right to accelerate the maturity of the obligation and prepayment rebates and penalties (This statement can usually be found in small print at the bottom of the "Fed" box.) (226.18(p))

A statement as to whether a subsequent purchaser of the dwelling may be permitted to assume the remaining obligation on its original terms (226.18(q))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**Within 3
Business Days of
Receipt of a
Written
Application
(cont'd)**

If the financial institution requires the consumer to maintain a deposit as a condition of the specific transaction, a statement that the annual percentage rate does not reflect the effect of the required deposit (This **does not** apply to: deposits earning 5% or more per year; an escrow account for items such as taxes, insurance, or repairs; or payments under a Morris Plan.) (226.18(r))

Real Estate Settlement Procedures Act (RESPA)

1. Determine through discussion with management and review of credit files whether the Special Information Booklet (SIB) is provided within three business days from the time the financial institution receives a written application for a loan. The SIB is not required for refinanced loans. (3500.6(a))
2. In conjunction with the above step, determine whether the financial institution provides a good faith estimate (GFE) of settlement costs within three business days after receipt of a written application.

The GFE should be compared to the HUD-1 to ensure estimates provided were reasonably similar to fees actually paid by the borrower. Also, ensure the GFE was disclosed in the required format. (3500.7(a), 3500.7(c), and 3500.7(d))
3. If a face to face interview was not conducted, determine that a mortgage servicing disclosure statement was provided. (3500.21(d))
4. Determine through review of the financial institution's GFEs, HUD-1 and HUD-1A forms and discussions with management whether the financial institution requires the borrower to use the services of a particular individual or firm for settlement services as defined in Section 3500.2.

If so, ensure that the financial institution provides the borrower with the following information on the GFE:
 - a. Clearly states that use of the particular provider is required and that the estimate is based on the charges of the designated provider.

<p>PRIMARY RESIDENCE LOANS (cont'd)</p> <p>Within 3 Business Days of Receipt of a Written Application (cont'd)</p>	<p>b. Includes the name, address, and telephone number of each provider.</p>
	<p>c. Describes the nature of any relationship between each such provider and the lender; for example "X is a depositor of the lender," "X has performed 60% of the lender's settlements in the past year."</p> <p>For purposes of the above paragraph, a "relationship" exists if:</p> <p>The provider is an associate of the financial institution, as defined in 3500.15(c)(1)</p> <p>Within the last 12 months, the provider has maintained an account with the lender or had an outstanding loan or credit arrangement with the financial institution</p> <p>The financial institution has repeatedly used or required borrowers to use the services of the provider within the last 12 months</p> <p>With the exception of a provider that is the institution's chosen attorney, credit reporting agency, or appraiser, if the financial institution is in a controlled business relationship, as defined in 3500.15, with a provider, the financial institution may not require use of that provider. (3500.7(e))</p>
	<p>5. Determine if the financial institution maintains a controlled list of required providers (five or more for each individual service) or relies on a list maintained by others.</p> <p>If so, and at the time of application the lender has not yet decided which provider will be selected from that list, then the lender may satisfy the requirements of Section 3500.7(e) if the lender:</p> <p>a. Provides the borrower with a written statement that the lender will require a particular provider from a lender-controlled or approved list.</p> <p>b. Provides the borrower in the GFE the range of costs for the required provider(s), and provides the name of the specific provider and the actual cost on the HUD-1 or HUD-1A.</p> <p>(3500.7(e)(4))</p>

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing**

Truth In Lending (TIL)
<p>1. Determine that the financial institution provided the consumer with a TIL disclosure, with all the information described previously under "Within Three Business Days", if the annual percentage rate (APR) in the consummated transaction varied from the APR disclosed under 226.18(e) by more than 1/8 of 1% in a regular transaction or more than 1/4 of 1% in an irregular transaction. The changed terms should be disclosed no later than consummation or settlement. (226.17 (f))</p>
<p>2. Determine that the financial institution provided the consumer with a TIL disclosure (with all the information described previously under "Within Three Business Days") if in an adjustable rate mortgage the initial rate is not determined by the index or formula used to make later interest rate adjustments, as in a discounted variable-rate transaction, the disclosed APR should reflect a composite rate based on the initial rate for as long as it is applied and, for the remainder of the term, the rate that would have been applied using the index or formula at the time of consummation.</p> <p>A redisclosure need not be provided if the index at consummation did not result in an APR which differed from the original APR by more than the allowed tolerance. (226.19(a)(2))</p>
<p>3. Determine that the financial institution provided the consumer with notice of the right to receive an itemization of the amount financed if a GFE was not provided. (Does not apply to refinance.) (226.18(c), footnote 39))</p>
<p>4. Determine that the financial institution provided the notice of right to rescind for refinanced loans from another creditor, and refinanced loans from the same creditor when additional funds are advanced from this creditor. (In the latter case, only the amount of the "new or additional" funds is subject to rescission.)</p> <p>A loan to acquire a principal dwelling and make improvements to that dwelling is exempt if treated as one transaction. The rescission notice shall be on a separate document that identifies the transaction and shall clearly and conspicuously disclose the following:</p> <ul style="list-style-type: none"> a. The retention or acquisition of a security interest in the consumer's principal dwelling. b. The consumer's right to rescind the transaction.

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

- c. How to exercise the right to rescind, with a form for that purpose, designating the address of the creditor's place of business.
- d. The effects of rescission.
- e. The date the rescission period expires.
(226.23(a)) and (226.23(b))

5. Determine that the financial institution provided two copies of the notice of right to rescind and one copy of the TIL disclosure to each consumer entitled to rescind. (226.23(b))

6. Determine that the financial institution did not disburse any money other than in escrow, performed no services, and delivered no materials before the rescission period expired (three business days, including Saturdays), provided the consumer did not legitimately waive their right to rescind. (226.23(c))

7. Determine if any consumers waived their right to rescind.

If so, ensure the waivers were hand written and described a bona fide personal financial emergency. Printed forms for this purpose are prohibited. (226.23(e))

8. In those instances where the APR may increase after loan consummation, determine the loan contract includes the maximum interest rate that may be imposed during the term of the obligation. (226.30(a))

Real Estate Settlement Procedures

1. Determine that the financial institution uses the current Uniform Settlement Statement (HUD-1) or an allowable substitute when required. For refinancings, the borrower's side of the HUD-1 or alternatively, the HUD-1A may be used. (3500.8(a))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

2. Determine that the settlement statement is completed in accordance with the instructions set forth in Appendix A of RESPA.

NOTE: Items frequently overlooked are the borrower/seller addresses, the lender/owner title coverage amounts, and charges required by the lender, but paid outside of closing marked as "P.O.C.", but not included in settlement totals. (3500.8(b))

3. Determine the settlement agent allows the borrower, upon request, to inspect the HUD-1 or HUD-1A at least one business day prior to settlement. (3500.10(a))

4. The settlement agent provides the HUD-1 or HUD-1A to the borrower and seller at or before settlement. (3500.10(b))

In cases where the right to delivery is waived or the transaction is exempt, the settlement statement is mailed as soon as possible after settlement (3500.10(c)) and (3500.10(d))

NOTE: The following disclosures for escrow accounts apply only to those accounts in which the financial institution actually establishes a separate account to handle payment of taxes, insurance, and other charges related to the loan.

Escrow Accounts

5. An initial escrow statement has been delivered to the borrower at closing or not later than 45 days after the establishment of the escrow account, which includes the following information:

- a. A clear itemization of the estimated taxes, insurance premiums, and other charges that are reasonably anticipated to be paid from the escrow account during the first 12 months after the establishment of the account.
- b. The anticipated dates of such payments.
- c. The amount the financial institution selects as a cushion. (3500.17(h)(2))

NOTE: The initial statement may be included in the basic text of the HUD-1 or HUD-1A or may attach the initial escrow statement as an additional page to the HUD-1 or HUD-1A.

(3500.17(g)(1))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

6. Determine that the financial institution is in compliance with the established limitations on charges upon creation of an escrow account:

The lender may not require the borrower to deposit in an escrow account an aggregate sum in excess of an amount sufficient to pay the charges related to the mortgaged property, such as taxes and insurance, which are attributable to the period from the date such payment(s) were last made until the initial payment date

Also, an additional charge (cushion) may be placed upon the borrower that shall be no greater than 1/6 of the estimated total annual payments from the escrow account

(3500.17(c)(1))

7. Determine that an escrow account analysis to determine the amount the borrower shall deposit into the escrow account, subject to the above limitations, was conducted by the servicer.

In conducting the analysis, the servicer shall estimate the disbursement amounts as described in 3500.17(c)(7). The servicer shall use a date on or before the **earlier** of the deadline to take advantage of discounts, if available, or the deadline to avoid a penalty as the disbursement date for the escrow item.

(3500.17(c)(2))

8. In conducting an escrow account analysis, determine whether the servicer used one of the acceptable accounting methods:

Aggregate analysis method

Single-item

Other non-aggregate analysis methods

(3500.17(c)(4))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

Fair Housing

1. Determine, for financial institutions *not* located in an metropolitan statistical area (MSA) or with total assets as of December 31 of the preceding calendar year of \$10 million or less, that the following applicant information was collected, excluding applications received by telephone:

Date of application

Case Identification

-- Name

-- Address

-- Location (street address, city, state, and zip code) of subject property

-- Sex

-- Race/national origin

-- Age

-- Marital status

This information can be collected on the application or on a separate sheet which refers to the application. (338.7(a)(1)(i))

NOTE: If the information regarding race and sex is not voluntarily furnished, the financial institution shall note the information, based on visual observation or surname, on the application or an attached document.

(338.7 (a)(1)(ii))

2. Determine, for financial institutions located in a MSA and having total assets exceeding \$10 million as of December 31 of the preceding calendar year, that the following applicant information was collected:
 - a. The same data as listed in step 1 above plus loan type and case disposition. (338.7(a)(2)(i))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

b. The following additional data is collected:

Employment

Income

Number of dependents

Total assets

Total liabilities

Total monthly payments on liabilities

Customer(s) of the financial institution (yes or no)

Subject property information, for example, year built, purchase price, land value (construction loan only), address, census tract, and number of residential units

Loan request information, for example, purpose, type of mortgage, amount, interest rate, months to maturity, monthly payment, principal, and interest, estimated total closing costs, estimated closing costs paid by seller, and estimated real estate taxes and insurance

(338.7(a)(2)(ii))

NOTE: If the information regarding race and sex is not voluntarily furnished, the financial institution shall note the information, based on visual observation or surname, on the application or an attached document. (338.7(a)(2)(iii))

3. Determine that the financial institution advised the applicant that the information regarding race/national origin, marital status, age, and sex is being requested to enable the FDIC to monitor compliance with the Fair Housing and Equal Credit Opportunity Acts which prohibit creditors from discriminating against applicants on prohibited bases; the FDIC encourages the applicant to provide the information requested; and if the applicant refuses to provide the information concerning race/national origin or sex, the financial institution is required, where possible, to note the information on the basis of visual observation or surname. (338.7(b)(1))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

Flood Insurance	
<p><i>NOTE: Until the PROPOSED RULE (dated 10/18/95) is finalized, examiners should continue to use existing examination procedures for and cite violations under the present Part 339.</i></p>	
1.	<p>Ensure the financial institution used the standard flood hazard determination form when determining whether or not the securing improved real estate or mobile home is or will be located in a special flood hazard area in which flood insurance is available under the Act. (A completed copy of the flood hazard determination form shall be retained by the financial institution for the period of time the loan is owned.) (339.6) (Proposed Rule)</p>
2.	<p>Ensure the financial institution provided the required written notice to the borrower not later than 10 days before the closing of the transaction or at the time of a commitment, whichever is earlier, advising the borrower that the improved real estate or mobile home securing the loan is in a flood hazard area and whether or not federal disaster relief assistance will be available.</p> <p>Ensure the contents of the notice meet the requirements of Section 339.9(b) and contains language substantially similar to that in Appendix A to Part 339. (Proposed Rule)</p>
3.	<p>Ensure the financial institution did not make, increase, extend, or renew any designated loan unless the securing properties are covered by flood insurance for the term of the loan. (The amount of insurance must be at least equal to the outstanding principal balance of the loan or the maximum limit of coverage made available for the particular type of property under the Act, whichever is less.) (339.3) (Proposed Rule)</p> <p><i>NOTE: Flood insurance rules require that only the value of the improvements be insured; therefore, consideration should be given to the value of the land when reviewing flood insurance amounts.</i></p> <p><i>Also, when reviewing flood insurance coverage amounts for properties involving master policies, coverage amounts for <u>each unit</u> should be calculated. Per unit amounts should be reviewed for sufficiency with the loan amount. Shortages in coverage amounts should be eliminated by an individual policy.</i></p>

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

(This frequently involves loans to individual condominium unit owners where flood insurance coverage is provided under a master policy in the name of the condo association.)

Flood insurance coverage is required for improved real estate, despite the location (height) of specific property, if the property is located in a special flood hazard area. For example, a 15th floor apartment requires the same coverage as a 1st floor apartment, provided all else remains the same.

4. The financial institution must also notify the borrower that flood insurance will be obtained by the financial institution, at cost to the borrower, if the borrower fails to purchase the insurance within 45 days after notification. (339.7) **(Proposed Rule)**
5. Determine whether the financial institution charges borrowers a "reasonable" fee for making a determination whether flood insurance is required. (339.8) **(Proposed Rule)**
6. Determine that flood insurance premiums are escrowed, as required, if a financial institution also requires the escrow of taxes, insurance premiums, fees or any other charges for a loan that is consummated and secured by residential improved real estate or a mobile home. (339.5) **(Proposed Rule)**

*NOTE: In the event of a flood insurance claim, Federal Emergency Management Agency (FEMA) makes the proceeds check payable to **all lienholders** and the borrower. This action is taken even if the first lienholder **did not** require flood insurance when the first mortgage was made.*

For example, a second lienholder requires a borrower to purchase flood insurance to cover the amount of its mortgage (a home equity line in the amount of \$20,000). In the event of a flood, FEMA would make the proceeds check payable to the first and second lienholders as well as the borrower. Therefore, the first lienholder would share the \$20,000 insurance proceeds even though it failed to have the borrower purchase flood insurance at the time the first mortgage was made. The parties involved would determine how the proceeds are allocated.

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

NOTE: The "purchase of a loan" is not the equivalent of the "making of a loan" for purposes of federal flood insurance regulations. Although Part 339 is silent on this issue and there are no published advisory opinions that address this question, a plausible argument can be made based upon principles of statutory construction of the regulation that the making of a loan should not be construed to include the purchase of a loan for purposes of federal flood insurance legislation.

NOTE: It is the FDIC's position that federal flood insurance legislation applies to subsidiaries of financial institutions which they supervise to promote consistency and compliance with federal flood insurance requirements. The FDIC relies, in part, on its general authority to supervise the activities of insured nonmember banks as a basis for a finding that the subsidiaries of regulated financial institutions must comply with federal flood insurance requirements.

NOTE: When improved real estate or a mobile home located in a flood hazard area is taken as security in "an abundance of caution," flood insurance requirements are applicable. Although the "abundance of caution" test is a basis for an exception to the appraisal requirements in Part 323 of the FDIC Rules and Regulations, there is no such exception for the flood insurance requirements of Part 339 or applicable Federal statute.

Equal Credit Opportunity

1. Determine that a written application was taken. (202.5(e))

2. Determine if the financial institution requests information regarding race, sex, marital status, and age.

This information may be requested on the application or a separate form that refers to the application.

NOTE: The applicant(s) should be requested but not required to provide the information. If the applicant(s) choose not to provide the information, that fact shall be noted on the form on which it was requested. The creditor shall then note the race and sex based on visual observation or surname, to the extent possible.

(202.13)

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

3. Determine that the financial institution provided the consumer with notice of the right to receive an appraisal, if the financial institution does not routinely provide appraisals as a course of business.

Delivery of the appraisal should generally occur within 30 days of receipt of an applicant's request, receipt of the report, or receipt of reimbursement from the applicant for the report, whichever is last to occur. (Effective date was December 14, 1993, with optional compliance until June 14, 1994).

(202.5a(2))

Credit Practices Rule

NOTE: These procedures apply to mobile home loans without real estate.

1. Review the documents evidencing the credit obligation for the required notice to co-signers.
 - a. If the notice to co-signers is contained in the note or disclosure, it must be clear, conspicuous, and substantially similar to that provided in the regulation and must be provided before the co-signer becomes obligated. (227.14)
 - b. If the notice to co-signers is contained in a separate document:

Interview applicable employees to determine if they are aware that the notice must be provided prior to the co-signers becoming obligated

Review the financial institution's policies, procedures, and practices to ensure that appropriate personnel are aware that co-signers must be provided with the notice prior to becoming obligated

2. Determine that the following prohibited contract provisions are not included in contracts (or related documents) originated, or enforced in contracts acquired by the financial institution:

Confession of judgment
Waiver of statutory property exemption

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

Assignment of wages
Blanket security interest in household goods

(227.13)

Fair Credit Reporting Act

1. Determine that any credit reports contained in the file were requested and used only as permissible and specified in the Fair Credit Reporting Act. (607)

Preservation of Consumers' Claims and Defenses

1. Review any blank note forms furnished by the financial institution to dealers.

Determine if the following required notice is included as part of the contract:

NOTICE

ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED PURSUANT HERETO OR WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.

(432.2 (a))

2. Review at least one note from each dealer from which the financial institution has purchased indirect paper since the previous compliance examination.

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

Determine whether or not the contracts contain the following required notice without conflict with other contractual provisions:

NOTICE

ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED OR WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.

(432.2 (b))

3. Review relationships with dealers to determine if the financial institution is making "purchase money loans" as defined in the Rule.

A purchase money loan is a cash advance which is received by a consumer in return for a "finance charge" within the meaning of the Truth in Lending Act and Regulation Z, which is applied, in whole or substantial part, to a purchase of goods or services from a seller who (1) refers consumers to the creditor or (2) is affiliated with the creditor by common control, contract, or business arrangement.

4. Review purchase money loans made since the previous compliance examination to determine whether the contracts contain the required notice without conflict with other contractual provisions.

After Closing

Truth In Lending (TIL)

1. Determine, for adjustable rate mortgages, that the financial institution provided consumers with the following disclosures at least once each year during which an interest rate adjustment was implemented without an accompanying payment change, and at least 25, but no more than 120, calendar days before a payment at a new level is due:
 - a. The current and prior interest rates.
 - b. The index values upon which the current and prior interest rates are based.

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**After Closing
(cont'd)**

- c. The extent to which the creditor has foregone any increase in the interest rate.
- d. The contractual effects of the adjustment, including the payment due after the adjustment is made, and a statement of the loan balance.
- e. The payment, if different than (d) above, that would be required to fully amortize the loan at the new interest rate over the remainder of the loan term.

(226.20(c))

Real Estate Settlement Procedures Act (RESPA)

1. Determine whether, for continuing escrow arrangements, the financial institution provides an annual escrow statement to the borrower within 30 days of the completion of the escrow account computation year.
(3500.17(h)(3)(i))

2. Determine if the annual escrow statement itemizes:
 - a. Amount of current monthly payment.
 - b. Portion of the monthly payment being placed in escrow.
 - c. Total amount paid into escrow for the 12-month period.
 - d. Total amount paid for taxes, insurance, and other charges.
 - e. Balance in the escrow account at the end of the period.
 - f. Explanation of how any surplus is being handled by the servicer.
 - g. An explanation of how any shortage or deficiency is to be paid by the borrower.
 - h. If applicable, the reason(s) why the estimated low monthly balance was not reached.

(3500.17(h)(3)(i)(1))

3. Determine that the transferor provided the notice to the borrower of the transfer of mortgage servicing at least 15 days prior to the transfer.
(3500.21(d)(2))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**After Closing
(cont'd)**

4. Determine that the transferee provided notice to the borrower within 15 days after the transfer. (3500.21(d)(2))

5. Determine whether the notice by transferor and transferee included the following:

- a. The effective date of the transfer.
- b. The new servicer's name, address, and toll-free or collect call telephone number.
- c. A toll-free or collect telephone number of the present servicer to answer inquiries relating to the transfer.
- d. The date on which the present servicer will cease accepting payments and the date the new servicer will begin accepting payments relating to the transferred loan.

NOTE: Dates should be consecutive.

- e. Any information concerning the effect of the transfer on the availability of terms of optional insurance and any action the borrower must take to maintain coverage.
- f. A statement that the transfer does not affect the terms or conditions of the mortgage, other than terms directly related to its servicing.

(3500.21(d)(3))

NOTE: Sample language for the notice of transfer is contained in Appendix MS-2 to Section 3500.

Fair Housing

1. For a financial institution located in a MSA and having assets over \$10 million, determine whether the loan transaction was recorded on the loan application register within 30 calendar days after the loan application was disposed of (that is, the application was denied, withdrawn, or the loan went to closing). (338.8 (c))

**PRIMARY
RESIDENCE
LOANS
(cont'd)**

**After Closing
(cont'd)**

Flood Insurance

***NOTE:** Until the **PROPOSED RULE** (dated 10/18/95) is finalized, examiners should continue to use existing examination procedures for and cite violations under the present Part 339.*

1. Determine, for those transactions in which flood insurance was obtained, that such insurance has been renewed each year and maintained throughout the life of the loan. **(Proposed Rule)**

***NOTE:** Federal flood insurance legislation is silent on the issue of **retrospective** portfolio review.*

Home Mortgage Disclosure

1. Determine whether the loan transaction was accurately recorded on the LAR within 30 days after the end of each calendar quarter in which final action was taken. (203.4(a))

**INTERIM
PROCEDURES
TRUTH IN
LENDING (TIL)
SUBPART E**

The following are interim examination procedures for Subpart E – Special Rules for Certain Home Mortgage Transactions; Sections 226.31, 226.32, and 226.33 of the Federal Reserve Board's Regulation Z. These became effective October 1, 1995.

Definitions

Certain closed-end home mortgages concern a consumer credit transaction that is secured by the consumer's principal dwelling, and in which either:

The annual percentage rate (APR) at consummation will exceed by more than ten percentage points the yield on Treasury securities having comparable periods of maturity to the loan's maturity as of the fifteenth day of the month immediately preceding the month in which the application for the extension of credit is received by the creditor

The total points and fees (see definition below) payable by the consumer at or before loan closing will exceed the greater of 8% of the total loan amount, or \$400 (This dollar amount is adjusted annually based on changes in the Consumer Price Index)

Exempt transactions include:

Residential mortgage transactions (generally purchase money mortgages)

Reverse mortgage transactions subject to Section 226.33

Open-end credit plans subject to Subpart B of Regulation Z

Refer to Section 226.32(a).

NOTE: Recent Treasury security rates can be requested from the bank, or obtained in the financial section of The Wall Street Journal for the appropriate time period.

Points and fees means:

All items required to be disclosed under 226.4(a) and (b) except interest or the time-price differential

All compensation paid to mortgage brokers

**INTERIM
PROCEDURES
TIL SUBPART
E (cont'd)**

All items required to be disclosed under 226.4(c)(7) (other than amounts held for future taxes) unless the charge is reasonable, the creditor receives no direct or indirect compensation in connection with the charge, and the charge is not paid to an affiliate of the creditor

**Definitions
(cont'd)**

Refer to Section 226.32(b)(1).

Reverse mortgage is a nonrecourse transaction that is secured by the consumer's principal dwelling and that ties repayment (other than upon default) to the homeowner's death or permanent move from or transfer of the home.

Refer to Section 226.33(a).

Procedures

The Federal Financial Institutions Examination Council (FFIEC) is in the process of developing uniform examination objectives and procedures. Until such issuance, DCA examination staff will perform the following:

FDIC Examination Procedures	
1.	The examiner shall determine whether the financial institution offers consumer credit transactions subject to Subpart E of Regulation Z; specifically, certain <i>closed-end home mortgages</i> and <i>reverse mortgages</i> . <i>Refer to Section 226.32(a) and Section 226.33(a).</i>
2.	The examiner shall review loans subject to Subpart E of Regulation Z to ensure that, in accordance with Section 226.31: Required disclosures are provided to consumers, in addition to, and not in lieu of the disclosures contained in other subparts of this part (226.31(a)) The disclosures are clear and conspicuous, in writing, and in a form that the consumer may keep (226.31(b)) Disclosures are furnished at least three business days prior to consummation of a mortgage transaction covered by Section 226.32; and at least three business days prior to: -- Consummation of a closed-end credit transaction -- The first transaction under an open-end credit plan as required by Section 226.33 (226.31(c)(1) and (2))

**INTERIM
PROCEDURES
TIL SUBPART
E (cont'd)**

**Procedures
(cont'd)**

Subsequent to consummation, the creditor makes redisclosure if there are changes in any terms that make the disclosures inaccurate (226.31(c)(1)(i))

A creditor provides new disclosures by telephone if the consumer initiates the change and if, at consummation:

- The creditor provides new written disclosures
- The consumer and creditor sign a statement that the new disclosures were provided by telephone at least three days prior to consummation (226.31(c)(1)(ii))

If a consumer waives the right to a three-day waiting period to meet a bona fide personal financial emergency, the waiver must be a dated written statement that describes the emergency, specifically modifies or waives the waiting period, and bears the signature of all the consumers entitled to the waiting period (A consumer is allowed to waive the right to the three-day waiting period to meet a bona fide personal financial emergency only after receiving the disclosures required by paragraph 226.31(c)(1))

(226.31(c)(iii))

The disclosures reflect the terms of the legal obligation between the parties (226.31(d))

If the transaction involves more than one creditor, only one set of disclosures are given (The creditors shall agree among themselves which creditor must comply with the requirements.) (226.31(e))

Additionally, if the transaction involves more than one consumer, the disclosures are made to any consumer who is primarily liable on the obligation. If the transaction is rescindable under Sections 226.15 or 226.23, the disclosures are made to each consumer who has the right to rescind (226.31(e))

The APR is accurately calculated and disclosed in accordance with Section 226.22 (226.31(g))

**INTERIM
PROCEDURES
TIL SUBPART
E (cont'd)**

**Procedures
(cont'd)**

Certain Closed-End Home Mortgages

3. For certain closed-end home mortgages subject to Section 226.32, the examiner shall:
- a. Ensure that, in addition to other required disclosures, the creditor discloses the following, as detailed in Section 226.32(c), for mortgages subject to that section:
 - Notices
 - Annual percentage rate
 - Regular payment
 - Variable rate
 - b. Ensure that a mortgage transaction subject to this section does not provide for the following terms, as detailed in Section 226.32(d):
 - Balloon payment (term <5 years, with exceptions)
 - Negative amortization
 - Advance payments of more than 2 periodic payments
 - Increased interest rate
 - Rebates
 - Prepayment penalties (with exceptions)
 - c. Ensure that the creditor is not engaged in the following prohibited acts and practices:
 - Repayment ability – Extending such credit to a consumer based on the consumer's collateral if, considering the consumer's current and expected income, current obligations, and employment status, the consumer will be unable to make the scheduled payments to repay the obligation
 - Home improvement contracts – Paying a contractor under a home improvement contract from the proceeds of a mortgage covered by this section (with exceptions)
 - Notice to assignee – Selling or otherwise assigning a mortgage subject to this section without furnishing the required statement to the purchaser or assignee

226.32(e)

**INTERIM
PROCEDURES
TIL SUBPART
E (cont'd)**

**Procedures
(cont'd)**

Reverse Mortgages

4. For reverse mortgages subject to Section 226.33, the examiner shall:
- a. Verify that disclosures are provided in a form substantially similar to the model form found in paragraph (d) of Appendix K of Regulation Z and include the following:

Notice

Total annual loan cost rates – A good faith projection of the total cost of the credit, to include, as detailed in Section 226.33(c):

- Costs to consumer
- Payments to consumer
- Additional credit compensation
- Limitations on consumer liability
- Assumed annual appreciation rates
- Assumed loan period
- Itemization of pertinent information
- Explanation of table

(226.33(b))

**HOME
IMPROVEMENT
AND HOME
EQUITY
LOANS (HEL)**

The following procedures are to be used to review home improvement and home equity loans secured by a principal dwelling. Loan samples should be selected in accordance with the sampling procedures. Ensure that your sample includes each type of loan, as applicable.

Fixed-rate loans require no Truth in Lending procedures "at application". Proceed to "at application" procedures for Real Estate Settlement Procedures.

Variable-rate loans require certain procedures "at application".

At Application

Ensure that the following disclosures for each variable-rate loan have been provided if the annual percentage rate may increase after consummation in a transaction secured by the consumer's principal dwelling **with a term greater than one year.**

Truth In Lending (TIL)	
1.	Perform "General Truth in Lending Procedures" detailed in the Introduction to Approved Loans section of this manual.
2.	<p>Determine if proceeds of the loan being reviewed were distributed in multiple advances. If so, refer to interim construction loan TIL procedures for APR and Finance Charge disclosures.</p> <p>a. The Consumer Handbook on Adjustable Rate Mortgages (CHARM) booklet or a suitable substitute if you are reviewing an adjustable rate mortgage loan with a term of greater than one year. (226.19(b)(1))</p> <p>b. A loan program disclosure for each variable-rate program in which the consumer expresses an interest, which should include the following as applicable:</p> <p style="padding-left: 40px;">The fact that the interest rate, payment, or term of the loan can change</p> <p style="padding-left: 40px;">The index or formula used in making adjustments, and a source of information about the index or formula. The index may be internally defined by the financial institution</p> <p style="padding-left: 40px;">An explanation of how the interest rate and payment will be determined, including an explanation how the index is adjusted, such as by the addition of a margin</p>

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**At Application
(cont'd)**

A statement that the consumer should ask about the current margin value and current interest rate

The fact that the interest rate will be discounted, and a statement that the consumer should ask about the amount of the interest rate discount

The frequency of interest rate and payment changes

Any rules relating to changes in the index, interest rate, payment amount, and outstanding loan balance including, for example, an explanation of interest rate or payment limitations, negative amortization, and interest rate carryover

A historical example, based on a \$10,000 loan amount, illustrating how payments and the loan balance would have been affected by interest rate changes implemented according to the terms of the loan program

The example shall be based upon index values beginning in 1977 and be updated annually until a 15-year history is shown. Thereafter, the example shall reflect the most recent 15 years of index values. The example shall reflect all significant loan program terms, such as negative amortization, interest rate carryover, interest rate discounts, and interest rate and payment limitations, that would have been affected by the index movement during the period. If the program is less than 15 years old, the history should only cover the length of the life of the program. Also, the index rates should only go back as far as the financial institution can reasonably determine the rates.

An explanation of how the consumer may calculate the payments for the loan amount to be borrowed based on the most recent payment shown in the historical example

The maximum interest rate and payment for a \$10,000 loan originated at the most recent interest rate shown in the historical example assuming the maximum periodic increases in rates and payments under the program; and the initial interest rate and payment for that loan

The fact that the loan program contains a demand feature

The type of information that will be provided in notices of adjustments and the timing of such

**HOME
IMPROVEMENT
AND HEL
(cont'd)**

**At Application
(cont'd)**

A statement that disclosure forms are available for the creditor's other variable-rate loan programs

(226.19(b)(2))

Real Estate Settlement Procedures Act (RESPA)

1. A mortgage servicing disclosure statement, if a face to face interview was conducted, with the following information:

Whether the servicing of any such loan may be assigned, sold, or transferred to any other person at any time while such loan is outstanding. If the financial institution does not service federally related mortgage loans, the disclosure may consist of a statement of intent to assign or transfer the servicing of the mortgage

For each of the most recent three calendar years completed (at the time of application), the percentage (rounded to the nearest quartile) of loans made by the financial institution for which the servicing has been assigned, sold, or transferred as of the end of the most recent calendar year completed (does not require the inclusion of any loans the servicing of which has been assigned, sold, or transferred by the person making the loan to a transferee servicer that is an affiliate or subsidiary of the financial institution). If the percentage of transfers are less than 12.5%, the word "nominal" may be used instead of a percentage

Required language regarding transfer practices and requirements, complaint resolution, and damages and costs

The lender's capacity to service covered loans, and the best available estimate of the percentage of loans made in the 12-month period beginning upon origination for which the servicing will be assigned, sold, or transferred. This percentage is to be expressed as one of four ranges: 0-25%, 26-50%, 51-75%, or 76-100%

A signed written acknowledgment of the applicant, and co-applicant, if any, that the applicant has read and understood the disclosure

(3500.21(b))

Real Estate Settlement Procedures Act (RESPA)

1. Determine whether the financial institution provides a good faith estimate (GFE) of settlement costs within three business days after receipt of a written application.

The GFE should be compared to the HUD-1 or HUD-1A to ensure estimates provided were reasonably similar to fees actually paid by the borrower. Also, ensure the GFE was disclosed in the required format. (3500.7(a), 3500.7(c), and 3500.7(d))

2. If a face to face interview was not conducted, determine that a mortgage servicing disclosure statement was provided. (3500.21(d))

3. Determine through review of the financial institution's GFEs, HUD-1, and HUD-1A forms and discussions with management whether the financial institution requires the borrower to use the services of a particular individual or firm for settlement services as defined in Section 3500.2.

If so, ensure that the financial institution provides the borrower with the following information on the GFE:

Clearly state that use of the particular provider is required and that the estimate is based on the charges of the designated provider

The name, address, and telephone number of each provider

Describe the nature of any relationship between each such provider and the lender; for example "X is a depositor of the lender," "X has performed 60% of the lender's settlements in the past year"

For purposes of the above paragraph, a "relationship" exists if:

- The provider is an associate of the lender, as defined in 3500.15(c)(1)
- Within the last 12 months, the provider has maintained an account with the lender or had an outstanding loan or credit arrangement with the lender
- The lender has repeatedly used or required borrowers to use the services of the provider within the last 12 months

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**Within 3
Business Days of
Receipt of a
Written
Application**

With the exception of a provider that is the lender's chosen attorney, credit reporting agency, or appraiser, if the lender is in a controlled business relationship, as defined in 3500.15, with a provider, the lender may not require use of that provider.

(3500.7(e))

4. Determine if the lender maintains a controlled list of required providers (five or more for each individual service) or relies on a list maintained by others.

If so, and at the time of application the lender has not yet decided which provider will be selected from that list, then the lender may satisfy the requirements of Section 3500.7(e) if the lender:

Provides the borrower with a written statement that the lender will require a particular provider from a lender-controlled or approved list; and

Provides the borrower in the GFE the range of costs for the required provider(s), and provides the name of the specific provider and the actual cost on the HUD-1 or HUD-1A.

(3500.7(e)(4))

**HOME
IMPROVEMENT
AND HEL
(cont'd)**

**Within 3
Business Days of
Receipt of a
Written
Application
(cont'd)**

**At or Before
Closing**

Truth In Lending (TIL)	
1.	<p>The Truth in Lending (TIL) disclosures will be provided by the creditor before consummation.</p> <p><i>NOTE: In certain residential mortgage transactions, special timing requirements are set forth. (226.17(b))</i></p> <p>a. Determine that the disclosures are grouped together, segregated from other material, and made clearly and conspicuously in writing in a form the consumer may keep. (226.17(a)(1))</p> <p>b. Determine that the terms "finance charge" and "annual percentage rate", when required to be disclosed with a corresponding amount or percentage rate, are more conspicuous than any other disclosure. (Those terms need not be more conspicuous than the financial institution's identity.) (226.17(a)(2))</p>
c.	<p>Determine the presence and accuracy of the following items in the TIL disclosure, as applicable:</p> <p><i>Refer to the appropriate Appendix of this manual for guidelines regarding APR calculations.</i></p> <p>The identity of the creditor making the disclosures. The creditor's name is sufficient; however, the address and telephone number can be included (226.18(a))</p> <p>The "amount financed", using that term, and a brief description, such as "the amount of credit provided to you or on your behalf"</p>

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

The amount financed should be compared to the principal amount on the note. The amount financed should be less than the principal amount if origination fees or other prepaid charges were applicable, otherwise these amounts should be the same. The amount financed is calculated by using the following procedures:

- Determine the principal loan amount or the cash price (subtracting any downpayment)
- Add any other amounts that are financed by the creditor and are not part of the finance charge
- Subtracting any prepaid finance charge

(226.18(b))

A separate, written itemization of the amount financed except where a statement is included that the consumer has the right to receive a written itemization and the consumer has not indicated in a space provided that such an itemization is desired (226.18(c))

The "finance charge", using that term, and a brief description, such as "the dollar amount the credit will cost you". The finance charge should include all finance charges outlined in Section 226.4 (226.18(d))

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

The "annual percentage rate", using that term, and a brief description, such as "the cost of your credit as a yearly rate"

The APR should be within the allowed tolerance of 1/8 of 1% (0.125) for regular transactions and 1/4 of 1% (0.25) for irregular transactions (an irregular transaction is one that includes one or more of the following features: multiple advances, irregular payment periods, or irregular payment amounts (other than an irregular first period or an irregular first or final payment)). (226.18(e) and (226.22))

Refer to footnotes in Section 226.22 for more guidance.

If the APR may increase after consummation in a transaction not secured by the consumer's principal dwelling or in a transaction secured by the consumer's principal dwelling with a term of one year or less, the following disclosures are required:

NOTE: Provided CHARM and ARM loan program disclosures required by Section 226.19(b) and 226.18(f)(2) have not been substituted.

- The circumstances under which the rate may increase
- Any limitations on the increase
- The effect of an increase
- An example of the payment terms that would result from an increase

(226.18(f)(1))

If the APR may increase after consummation in a transaction secured by the consumer's principal dwelling with a term greater than one year, the following disclosures should be provided:

- The fact that the transaction contains a variable-rate feature
- A statement that variable-rate disclosures have been provided earlier

(226.18(f)(2))

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

The number, amounts, and timing of payments scheduled to repay the obligation

The number of payments multiplied by the amount of payments should equal the total of payments. The examiner should verify the number, amounts, and timing of payments with the legal document.

(226.18(g))

The "total of payments", using that term, and a descriptive explanation, such as "the amount you will have paid when you have made all scheduled payments"

Both the number and amount of payments, as well as the finance charge plus the amount financed should equal total of payments. The total of payments may be omitted in a single-payment transaction; however, this exception does not apply to a transaction calling for a single payment of principal combined with periodic payments of interest.

(226.18(h))

The fact that the obligation has a demand feature and that the disclosures are based on an assumed maturity of one year if no alternate maturity date is stated. This feature should only be utilized if the loan is truly made "on demand", for example, the loan can be called at any time for any reason
(226.18(i))

Refer to Regulation Z Official Staff Commentary.

A statement indicating whether a penalty may be imposed if the obligation is prepaid in full when the obligation includes a finance charge computed from time to time by application of a rate to the unpaid principal balance

If the obligation includes a precomputed finance charge, a statement indicating whether the consumer is entitled to a rebate of any finance charge if the obligation is prepaid in full. The prepayment penalty clause ideally should only be utilized on simple interest notes and the rebate clause should only be utilized on precomputed notes. However, when a simple interest note includes private mortgage insurance, the rebate clause should also be utilized.

(226.18(k))

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

Any dollar or percentage charge that may be imposed before maturity due to a late payment. This amount should be compared to what is specified in the note, to ensure the correct terms have been stated (226.18(l))

The fact that the creditor has or will acquire a security interest in the property purchased as part of the transaction or in other property identified by item or type. For residential property, utilizing the "goods or property purchased" clause will suffice (226.18(m))

To exclude certain insurance premiums from the finance charge, the following conditions must be disclosed:

- For premiums for credit life, accident, health, or loss-of-income insurance:
 - (i) That the insurance coverage is not required by the creditor.
 - (ii) The premium for the initial term of insurance coverage and if the term of insurance is less than the term of the transaction, the term of insurance also shall be disclosed.
 - (iii) That the consumer signed or initialed an affirmative written request for the insurance after receiving the disclosures specified above. Any consumer in the transaction may sign or initial the request.

(226.4 (d))

These conditions can be contained within the credit insurance application form, as well as any other separate form.

- For premiums for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property:
 - (i) That the insurance coverage may be obtained from a person of the consumer's choice.

**HOME
IMPROVEMENT
AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

- (ii) If the coverage is obtained from or through the creditor, the premium for the initial term of insurance coverage. If the term of insurance is less than the term of the transaction, the term of insurance shall also be disclosed.

(226.18(n) and 226.4(d))

The disclosures required to exclude certain security interest charges from the finance charge

If itemized and disclosed, the following charges may be excluded from the finance charge:

- Taxes and fees prescribed by law that actually are or will be paid to public officials for determining the existence of or for perfecting, releasing, or satisfying a security interest
- The premium for insurance in lieu of perfecting a security interest to the extent that the premium does not exceed the fees described above that otherwise would be payable

(226.18(o))

A statement that the consumer should refer to the appropriate contract document for information about nonpayment, default, the right to accelerate the maturity of the obligation and prepayment rebates and penalties. This statement can usually be found in small print at the bottom of the "Fed" box (226.18(p))

If the financial institution requires the consumer to maintain a deposit as a condition of the specific transaction, a statement that the annual percentage rate does not reflect the effect of the required deposit. This does not apply to deposits earning 5% or more per year (226.18(r))

2. Ensure that a notice of right to rescind is provided for loans secured by a primary residence other than for initial purchase. A loan to acquire a principal dwelling and make improvements to that dwelling is exempt if treated as one transaction.

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

The notice shall be on a separate document that identifies the transaction and shall clearly and conspicuously disclose the following:

The retention or acquisition of a security interest in the consumer's principal dwelling

The consumer's right to rescind the transaction

How to exercise the right to rescind, with a form for that purpose, designating the address of the creditor's place of business

The effects of rescission

The date the rescission period expires

(226.23(a)) and (226.23(b))

3. Ensure two copies of the notice of right to rescind and one copy of the TIL disclosure was provided to each consumer entitled to rescind. (226.23(b))

4. Determine that the financial institution did not disburse any money other than in escrow, performed no services, and delivered no materials before the rescission period expired (three business days, including Saturdays), provided the consumer did not legitimately waive their right to rescind. (226.23(c))

5. Determine if any consumers waived their right to rescind. If so, ensure the waivers were hand written and described a bona fide personal financial emergency. Printed forms for this purpose are prohibited. (226.23(e))

6. In those instances where the APR may increase after loan consummation, determine the loan contract includes the maximum interest rate that may be imposed during the term of the obligation. (226.30(a))

**HOME
IMPROVEMENT
AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

Real Estate Settlement Procedures Act (RESPA)	
1.	Determine that the financial institution uses the current Uniform Settlement Statement (HUD-1) or an allowable substitute when required. For subordinate lien loans or loans for which there is a borrower and no seller, the borrower's side of the HUD-1 or alternatively, the HUD -1A may be used. (3500.8(a))
2.	Determine that the settlement statement is completed in accordance with the instructions set forth in Appendix A of RESPA. (3500.8(b)) <i>NOTE: Items frequently overlooked are the borrower /seller addresses, the lender/owner title coverage amounts, and charges required by the lender, but paid outside of closing marked as "P.O.C.", but not included in settlement totals.</i>
3.	Determine the settlement agent allows the borrower, upon request, to inspect the HUD-1 or HUD-1A at least one business day prior to settlement. (3500.10(a))
4.	The settlement agent provides the HUD-1 or HUD-1A to the borrower and seller at or before settlement. (3500.10(b)) In cases where the right to delivery is waived or the transaction is exempt, the settlement statement is mailed as soon as possible after settlement (3500.10(c)) and (3500.10(d))
Escrow Accounts	
<i>NOTE: The following disclosures for escrow accounts apply only to those accounts in which the financial institution actually establishes a separate account to handle payment of taxes, insurance, and other charges related to the loan.</i>	
5.	An initial escrow statement has been delivered to the borrower at closing or not later than 45 days after the establishment of the escrow account, which includes the following information: <ul style="list-style-type: none"> a. A clear itemization of the estimated taxes, insurance premiums, and other charges that are reasonably anticipated to be paid from the escrow account during the first 12 months after the establishment of the account.

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

b. The anticipated dates of such payments.

c. The amount the financial institution selects as a cushion.

NOTE: The initial statement may be included in the basic text of the HUD-1 or HUD-1A or may attach the initial escrow statement as an additional page to the HUD-1 or HUD-1A. (3500.17(h)(2))

(3500.17(g)(1))

6. Determine that the financial institution is in compliance with the established limitations on charges upon creation of an escrow account:

The lender may not require the borrower to deposit in an escrow account an aggregate sum in excess of an amount sufficient to pay the charges related to the mortgaged property, such as taxes and insurance, which are attributable to the period from the date such payment(s) were last made until the initial payment date

Also, an additional charge (cushion) may be placed upon the borrower that shall be no greater than 1/6 of the estimated total annual payments from the escrow account

(3500.17(c)(1))

7. Determine that an escrow account analysis to determine the amount the borrower shall deposit into the escrow account, subject to the above limitations, was conducted by the servicer.

In conducting the analysis, the servicer shall estimate the disbursement amounts as described in 3500.17(c)(7). The servicer shall use a date on or before the **earlier** of the deadline to take advantage of discounts, if available, or the deadline to avoid a penalty as the disbursement date for the escrow item.

(3500.17(c)(2))

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

8. In conducting an escrow account analysis, determine whether the servicer used one of the acceptable accounting methods:

Aggregate analysis method

Single-item

Other non-aggregate analysis methods

(3500.17(c)(4))

Fair Housing

1. Determine, for financial institutions located in a metropolitan statistical area (MSA) and having total assets exceeding \$10 million as of December 31 of the preceding calendar year, that the following applicant information was collected:

Race or national origin

Sex

Income

This information can be collected other than on the application.
(338.8(a))

Flood Insurance

NOTE: Until the PROPOSED RULE (dated 10/18/95) is finalized, examiners should continue to use existing examination procedures for and cite violations under the present Part 339.

1. Ensure the financial institution used the standard flood hazard determination form when determining whether or not the securing improved real estate or mobile home is or will be located in a special flood hazard area in which flood insurance is available under the Act. (A completed copy of the flood hazard determination form shall be retained by the financial institution for the period of time the loan is owned.) (339.6) **(Proposed Rule)**

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

2. Ensure the financial institution provided the required written notice to the borrower not later than 10 days before the closing of the transaction or at the time of a commitment, whichever is earlier, advising the borrower that the improved real estate or mobile home securing the loan is in a flood hazard area and whether or not federal disaster relief assistance will be available.

Ensure the contents of the notice meets the requirements of Section 339.9(b) and contains language substantially similar to that in Appendix A to Part 339. **(Proposed Rule)**

3. Ensure the financial institution did not make, increase, extend, or renew any designated loan unless the securing properties are covered by flood insurance for the term of the loan. The amount of insurance must be at least equal to the outstanding principal balance of the loan or the maximum limit of coverage made available for the particular type of property under the Act, whichever is less. (339.3) **(Proposed Rule)**

NOTE: Flood insurance rules require that only the value of the improvements be insured; therefore, consideration should be given to the value of the land when reviewing flood insurance amounts.

Also, when reviewing flood insurance coverage amounts for properties involving master policies, coverage amounts for each unit should be calculated. Per unit amounts should be reviewed for sufficiency with the loan amount. Shortages in coverage amounts should be eliminated by an individual policy.

(This frequently involves loans to individual condominium unit owners where flood insurance coverage is provided under a master policy in the name of the condo association.)

Flood insurance coverage is required for improved real estate, despite the location (height) of specific property, if the property is located in a special flood hazard area. For example, a 15th floor apartment requires the same coverage as a 1st floor apartment, provided all else remains the same.

4. The financial institution must also notify the borrower that flood insurance will be obtained by the financial institution, at cost to the borrower, if the borrower fails to purchase the insurance within 45 days after notification. (339.7) **(Proposed Rule)**

**HOME
IMPROVEMENT
AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

5. Determine whether the financial institution charges borrowers a "reasonable" fee for making a determination whether flood insurance is required. (339.8) **(Proposed Rule)**

6. Determine that flood insurance premiums are escrowed, as required, if a financial institution also requires the escrow of taxes, insurance premiums, fees or any other charges for a loan that is consummated and secured by residential improved real estate or a mobile home. (339.5) **(Proposed Rule)**

*NOTE: In the event of a flood insurance claim, Federal Emergency Management Agency (FEMA) makes the proceeds check payable to **all lienholders** and the borrower. This action is taken even if the first lienholder **did not** require flood insurance when the first mortgage was made.*

For example, a second lienholder requires a borrower to purchase flood insurance to cover the amount of its mortgage (a home equity line in the amount of \$20,000). In the event of a flood, FEMA would make the proceeds check payable to the first and second lienholders as well as the borrower. Therefore, the first lienholder would share the \$20,000 insurance proceeds even though it failed to have the borrower purchase flood insurance at the time the first mortgage was made.

NOTE: The "purchase of a loan" is not the equivalent of the "making of a loan" for purposes of federal flood insurance regulations. Although Part 339 is silent on this issue and there are no published advisory opinions that address this question, a plausible argument can be made based upon principles of statutory construction of the regulation that the making of a loan should not be construed to include the purchase of a loan for purposes of federal flood insurance legislation.

NOTE: It is the FDIC's position that federal flood insurance legislation applies to subsidiaries of financial institutions which they supervise to promote consistency and compliance with federal flood insurance requirements. The FDIC relies, in part, on its general authority to supervise the activities of insured nonmember banks as a basis for a finding that the subsidiaries of regulated financial institutions must comply with federal flood insurance requirements.

**HOME
IMPROVEMENT
AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

NOTE: When improved real estate or a mobile home located in a flood hazard area is taken as security in "an abundance of caution," flood insurance requirements are applicable. Although the "abundance of caution" test is a basis for an exception to the appraisal requirements in Part 323 of the FDIC Rules and Regulations, there is no such exception for the flood insurance requirements of Part 339 or applicable federal statute.

Equal Credit Opportunity

1. Determine that a right to receive an appraisal was provided to the customer, if the financial institution does not routinely provide appraisals as a course of business.

Delivery of the appraisal should generally occur within 30 days of receipt of an applicant's request, receipt of the report, or receipt of reimbursement from the applicant for the report, whichever is last to occur. Effective date was December 14, 1993, with optional compliance until June 14, 1994.

(202.5a(2))

Credit Practices Rule

NOTE: These procedures apply to mobile home loans without real estate.

1. Review the documents evidencing the credit obligation for the required notice to co-signers.

If the notice to co-signers is contained in the note or disclosure, it must be clear, conspicuous, and substantially similar to that provided in the regulation and must be provided before the co-signer becomes obligated (227.14)

If the notice to co-signers is contained in a separate document:

- Interview applicable employees to determine if they are aware that the notice must be provided prior to the co-signers becoming obligated
- Review the financial institution's policies, procedures, and practices to ensure that staff members are aware that co-signers must be provided with the notice prior to becoming obligated

**HOME
IMPROVEMENT
T AND HEL
(cont'd)**

**At or Before
Closing (cont'd)**

2. Determine that the following prohibited contract provisions are not included in contracts (or related documents) originated, or enforced in contracts acquired by the financial institution:

Confession of judgment
Waiver of statutory property exemption
Assignment of wages
Blanket security interest in household goods

(227.13)

Fair Credit Reporting Act

1. Ensure any credit reports contained in the file were requested and used only as permissible and specified in the Fair Credit Reporting Act and for no other purposes. (607)

After Closing

Truth In Lending (TIL)

1. Determine, for adjustable rate mortgages, that the following disclosures were provided at least once each year during which an interest rate adjustment was implemented without an accompanying payment change, and at least 25, but no more than 120, calendar days before a payment at a new level is due:

The current and prior interest rates

The index values upon which the current and prior interest rates are based

The extent to which the creditor has foregone any increase in the interest rate

The contractual effects of the adjustment, including the payment due after the adjustment is made, and a statement of the loan balance

The payment that would be required to fully amortize the loan at the new interest rate over the remainder of the loan term

(226.20(c))

**HOME
IMPROVEMENT
AND HEL
(cont'd)**

**After Closing
(cont'd)**

Real Estate Settlement Procedures Act (RESPA)	
1.	Determine whether, for continuing escrow arrangements, the financial institution provides an annual escrow statement to the borrower within 30 days of the completion of the escrow account computation year. (3500.17(h)(3)(i))
2.	Determine if the annual escrow statement itemizes: <ul style="list-style-type: none"> a. Amount of current monthly payment. b. Portion of the monthly payment being placed in escrow. c. Total amount paid into escrow for the 12-month period. d. Total amount paid for taxes, insurance, and other charges. e. Balance in the escrow account at the end of the period. f. Explanation of how any surplus is being handled by the servicer. g. An explanation of how any shortage or deficiency is to be paid by the borrower. h. If applicable, the reason(s) why the estimated low monthly balance was not reached. (3500.17(h)(3)(i)(1))
3.	Determine that the transferor provided the notice to the borrower of the transfer of mortgage servicing at least 15 days prior to the transfer. (3500.21(d)(2))
4.	Determine that the transferor provided notice to the borrower within 15 days after the transfer. (3500.21)(d)(2))
5.	Determine whether the notice by transferor and transferee included the following: <ul style="list-style-type: none"> a. The effective date of the transfer. b. The new servicer's name, address, and toll-free or collect call telephone number.

**HOME
IMPROVEMENT AND HEL
(cont'd)**

**After Closing
(cont'd)**

- c. A toll-free or collect telephone number of the present servicer to answer inquiries relating to the transfer.
- d. The date on which the present servicer will cease accepting payments and the date the new servicer will begin accepting payments relating to the transferred loan.

NOTE: Dates should be consecutive.

- e. Any information concerning the effect of the transfer on the availability of terms of optional insurance and any action the borrower must take to maintain coverage.
- f. A statement that the transfer does not affect the terms or conditions of the mortgage, other than terms directly related to its servicing.

(3500.21(d)(3))

NOTE: Sample language for the notice of transfer is contained in Appendix MS-2 to Section 3500.

Fair Housing

- 1. For a financial institution located in a MSA and having assets over \$10 million, determine whether the loan transaction was recorded on the loan application register (LAR) within 30 calendar days after the loan application was disposed of (that is, the application was denied or withdrawn, or the loan went to closing). (338.8)

NOTE: If the loan is classified as a home improvement loan and a portion of the proceeds is to be used for repairing, rehabilitating, remodeling, or improving a one-to-four family residential dwelling or the real property upon which it is located, it should be recorded on the LAR.

**HOME
IMPROVEMENT
AND HEL
(cont'd)**

**After Closing
(cont'd)**

Flood Insurance

***NOTE:** Until the PROPOSED RULE (dated 10/18/95) is finalized, examiners should continue to use existing examination procedures for and cite violations under the present Part 339.*

1. Determine, for those transactions in which flood insurance was obtained, that such insurance has been renewed each year and maintained throughout the life of the loan. **(Proposed Rule)**

***NOTE:** Federal flood insurance legislation is silent on the issue of retrospective portfolio review.*

Home Mortgage Disclosure

1. Determine the loan transaction was accurately recorded on the LAR within 30 days after the end of each calendar quarter in which final action was taken.

If the loan is classified as a home improvement loan and a portion of the proceeds is to be used for repairing, rehabilitating, remodeling, or improving a one-to-four family residential dwelling, or the real property upon which it is located, it should be recorded on the register. (203.4(a))

**INTERIM
CONSTRUCT-
ION LOANS**

The following procedures are to be used to review consumer interim construction loans. Loan samples should be drawn in accordance with the sampling procedures.

**At or Before
Closing**

Truth In Lending (TIL)
<p>1. Perform "General Truth in Lending Procedures" detailed in the Introduction to Approved Loans section of this manual.</p>
<p>2. Ensure that the following disclosures for each loan reviewed have been provided in relation to the noted time frames and regulations.</p> <p>The TIL disclosure, as with other consumer credit types, must reflect the legal obligation between the parties, usually found in the contract note.</p> <p>Interim construction disclosures can be provided through one of three methods:</p> <p style="padding-left: 40px;">Disclosures can be provided as one transaction, both construction and permanent take-out, using estimates calculated in accordance with Appendix D of Regulation Z</p> <p style="padding-left: 40px;">Disclosures can be provided for each interim advance and final take-out based on calculations using Appendix J of Regulation Z</p> <p style="padding-left: 40px;">Disclosures can be provided based on calculations using Appendix J of Regulation Z or more commonly the U.S. Rule when the timing and amounts of advances are known</p> <p>When the note contract is for the duration of interim construction with permanent financing, any of the above could be used. Appendix D provides guidance for preparing disclosures as one transaction for the combined construction phase and permanent financing phase. Separate disclosures can be given for the construction phase and the permanent financed phase. If the financial institution chooses to give two sets of disclosures and the consumer is obligated for both construction and permanent phases at the outset, both sets of disclosures must be given before consummation of the transaction.</p> <p>Examiners should be aware that when the loan contract is for both interim construction phase financing and permanent financing, the transaction will be subject to RESPA requirements in most cases.</p>

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

In such instances the primary residence closed-end credit guidelines should be referred to. (226.17(b), 226.17(c)(6), and 226.19(a))

3. The TIL disclosure will be made by the creditor before consummation.

In certain residential mortgage transactions, special timing requirements are set forth. (226.17(b))

- a. Determine that the disclosures are grouped together, segregated from other material, and made clearly and conspicuously in writing in a form the consumer may keep. (226.17(a)(1))
- b. Determine that the terms "finance charge" and "annual percentage rate", when required to be disclosed with a corresponding amount or percentage rate, are more conspicuous than any other disclosure. (Those terms need not be more conspicuous than the financial institution's identity.) (226.17(a)(2))
- c. Determine the presence and accuracy of the following items in the TIL disclosure, as applicable:

Refer to the Truth in Lending Calculation Program Appendix of this manual for guidelines regarding APR calculations.

The identity of the creditor making the disclosures (The creditor's name is sufficient; however, the address and telephone number can also be included) (226.18(a))

The "amount financed", using that term, and a brief description, such as "the amount of credit provided to you or on your behalf"

The amount financed should be compared to the principal amount on the note. The amount financed should be less than the principal amount if origination fees or other prepaid charges were applicable, otherwise these amounts should be the same.

The amount financed is calculated by using the following procedures:

- Determine the principal loan amount or the cash price (subtracting any downpayment)
- Add any other amounts that are financed by the creditor and are not part of the finance charge

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

-- Subtract any prepaid finance charge

(226.18(b))

A separate, written itemization of the amount financed except where a statement is included that the consumer has the right to receive a written itemization and the consumer has not indicated in a space provided that such an itemization is desired

The "finance charge", using that term, and a brief description, such as "the dollar amount the credit will cost you"

The finance charge should include all finance charges outlined in Section 226.4. In instances where the interim and permanent phases of a construction loan are disclosed separately, prepaid finance charges such as a loan origination fee may be allocated between the transactions in any manner the financial institution chooses, as long as the charges are not applied more than once. For example, the same prepaid finance charges should not be reflected in both disclosures.

(226.18(d) and (226.17(c)(6)(Allocation of points) Official Staff Commentary)

The "annual percentage rate", using that term, and a brief description, such as "the cost of your credit as a yearly rate" (226.18(e) and 226.22)

The APR should be within the allowed tolerance of 1/8 of 1% (0.125) for regular transactions and 1/4 of 1% (0.25) for irregular transactions (an irregular transaction is one that includes one or more of the following features: multiple advances, irregular payment periods, or irregular payment amounts (other than an irregular first period or an irregular first or final payment).

Refer to footnotes in Section 226.22 for more guidance.

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

If the APR may increase after consummation in a transaction not secured by the consumer's principal dwelling or in a transaction secured by the consumer's principal dwelling with a term of one year or less, the following disclosures are required:

NOTE: Provided CHARM and ARM loan program disclosures required by Section 226.19(b) and 226.18(f)(2) have not been substituted.

- The circumstances under which the rate may increase
- Any limitations on the increase
- The effect of an increase
- An example of the payment terms that would result from an increase

(226.18(f)(1))

If the APR may increase after consummation in a transaction secured by the consumer's principal dwelling with a term greater than one year, the following disclosures should be provided:

- The fact that the transaction contains a variable-rate feature
- A statement that variable-rate disclosures have been provided earlier

(226.18(f)(2))

NOTE: This could be applicable when combined interim/permanent disclosures are provided or when a consumer is obligated by the same financial institution conducting the interim transaction to also complete permanent financing with that same financial institution. (226.18(f))

The number, amounts, and timing of payments scheduled to repay the obligation

The number of payments multiplied by the amount of payments should equal the total of payments. The examiner should verify the number, amounts, and timing of payments with the legal document.

(226.18(g))

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

- The "total of payments", using that term, and a descriptive explanation, such as "the amount you will have paid when you have made all scheduled payments"

NOTE: Both the number and amount of payments, as well as the finance charge plus the amount financed should equal total of payments. The total of payments may be omitted in a single-payment transaction; however, this exception does not apply to a transaction calling for a single payment of principal combined with periodic payments of interest.

(226.18(h))

The fact that the obligation has a demand feature and that the disclosures are based on an assumed maturity of one year if no alternate maturity date is stated (This feature should only be utilized if the loan is truly made "on demand" for example the loan can be called at any time for any reason.)

(226.18(i))

Refer to Regulation Z Staff Official Commentary.

A statement indicating whether a penalty may be imposed if the obligation is prepaid in full when the obligation includes a finance charge computed from time to time by application of a rate to the unpaid principal balance

If the obligation includes a precomputed finance charge, a statement indicating whether the consumer is entitled to a rebate of any finance charge if the obligation is prepaid in full. The prepayment penalty clause ideally should only be utilized on simple interest notes and the rebate clause should only be utilized on precomputed notes. However, when a simple interest note includes private mortgage insurance the rebate clause should also be utilized.

(226.18(k))

Any dollar or percentage charge that may be imposed before maturity due to a late payment (This amount should be compared to what is specified in the note, to ensure the correct terms have been stated.)

(226.18(l))

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

The fact that the creditor has or will acquire a security interest in the property purchased as part of the transaction or in other property identified by item or type (For residential property, utilizing the "goods or property purchased" clause will suffice.)

(226.18(m))

To exclude certain insurance premiums from the finance charge the following conditions must be disclosed:

-- For premiums for credit life, accident, health, or loss-of-income insurance:

- (i) That the insurance coverage is not required by the creditor.
- (ii) The premium for the initial term of insurance coverage and if the term of insurance is less than the term of the transaction, the term of insurance also shall be disclosed.
- (iii) That the consumer signed or initialed an affirmative written request for the insurance after receiving the disclosures specified above. Any consumer in the transaction may sign or initial the request.

These conditions can be contained within the credit insurance application form, as well as any other separate form.

(226.4 (d))

-- For premiums for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property:

- (i) That the insurance coverage may be obtained from a person of the consumer's choice.
- (ii) If the coverage is obtained from or through the creditor, the premium for the initial term of insurance coverage. If the term of insurance is less than the term of the transaction, the term of insurance shall also be disclosed.

(226.18(n) and 226.4(d))

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

The disclosures required to exclude certain security interest charges from the finance charge

If itemized and disclosed, the following charges may be excluded from the finance charge:

- Taxes and fees prescribed by law that actually are or will be paid to public officials for determining the existence of or for perfecting, releasing, or satisfying a security interest
- The premium for insurance in lieu of perfecting a security interest to the extent that the premium does not exceed the fees described above that otherwise would be payable

(226.18(o))

A statement that the consumer should refer to the appropriate contract document for information about nonpayment, default, the right to accelerate the maturity of the obligation and prepayment rebates and penalties. This statement can usually be found in small print at the bottom of the "Fed" box

(226.18(p))

If the financial institution requires the consumer to maintain a deposit as a condition of the specific transaction, a statement that the annual percentage rate does not reflect the effect of the required deposit. This does not apply to deposits earning 5% or more per year

(226.18(r))

4. Right of rescission may be applicable in isolated instances, such as for multiple-advance home improvement/rehab loans.

Refer to Section 226.23 and right of rescission procedures under home improvement and home equity loan procedures.

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

Real Estate Settlement Procedures

If a loan is made to construct a one-to-four family dwelling and a lien will be taken on the property on which it is built, resulting in a transfer of title, then the loan is subject to RESPA.

Refer to RESPA procedures under primary residence purchase, refinance, permanent construction, or assumption loan procedures. (3500.5(a)(3)) and (3500.5(a)(4))

Fair Housing

1. Determine, for financial institutions not located in an MSA or with total assets as of December 31 of the preceding calendar year of \$10 million or less, that the following applicant information was collected, excluding applications received by telephone:

Date of application

Case Identification

-- Name

-- Address

-- Location (street address, city, state, and zip code) of subject property

-- Sex

-- Race/national origin

-- Age

-- Marital status

(338.7(a)(1)(i))

This information may be requested on the application or a separate form that refers to the application.

If the information regarding race and sex is not voluntarily furnished, the financial institution shall note the information, based on visual observation or surname, on the application or an attached document.

(338.7(a)(1)(ii))

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

2. Determine, for financial institutions located in an MSA and having total assets exceeding \$10 million as of December 31 of the preceding calendar year, that the following applicant information was collected:

The same data as listed above, plus loan type and case disposition (338.7(a)(2)(i))

The following additional data is collected:

- Employment
- Income
- Number of dependents
- Total assets
- Total liabilities
- Total monthly payments on liabilities
- Customer(s) of the financial institution (yes or no)
- Subject property information, for example, year built, purchase price, land value (construction loan only), address, census tract, and number of residential units
- Loan request information, for example, purpose, type of mortgage, amount, interest rate, months to maturity, monthly payment, principal, and interest, estimated total closing costs, estimated closing costs paid by seller, and estimated real estate taxes and insurance

(338.7(a)(2)(ii))

If the information regarding race and sex is not voluntarily furnished, the financial institution shall note the information, based on visual observation or surname, on the application or an attached document. (338.7(a)(2)(iii))

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

3. Determine that the financial institution advised the applicant that the information regarding race/national origin, marital status, age, and sex is being requested to enable the FDIC to monitor compliance with the Fair Housing and Equal Credit Opportunity Acts which prohibit creditors from discriminating against applicants on the prohibited bases; the FDIC encourages the applicant to provide the information requested; and if the applicant refuses to provide the information concerning race/national origin or sex, the financial institution is required, where possible, to note the information on the basis of visual observation or surname. (338.7(b)(1))

Flood Insurance

NOTE: Until the PROPOSED RULE (dated 10/18/95) is finalized, examiners should continue to use existing examination procedures for and cite violations under the present Part 339.

1. Ensure the financial institution used the standard flood hazard determination form when determining whether or not the securing improved real estate or mobile home is or will be located in a special flood hazard area in which flood insurance is available under the Act. (A completed copy of the flood hazard determination form shall be retained by the financial institution for the period of time the loan is owned.) (339.6) **(Proposed Rule)**
2. Ensure the financial institution provided the required written notice to the borrower not later than ten days before the closing of the transaction or the commitment date, whichever is later, advising the borrower that the improved real estate or mobile home securing the loan is in a flood hazard area and whether or not federal disaster relief assistance will be available.

Ensure the contents of the notice meets the requirements of Section 339.9(b) and contains language substantially similar to that in Appendix A to Part 339. **(Proposed Rule)**

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

3. Ensure the financial institution did not make, increase, extend, or renew any designated loan unless the securing properties are covered by flood insurance for the term of the loan. (The amount of insurance must be at least equal to the outstanding principal balance of the loan or the maximum limit of coverage made available for the particular type of property under the Act, whichever is less.) (339.3) **(Proposed Rule)**

NOTE: Flood insurance rules require that only the value of the improvements be insured; therefore, consideration should be given to the value of the land when reviewing flood insurance amounts.

Also, when reviewing flood insurance coverage amounts for properties involving master policies, coverage amounts for each unit should be calculated. Per unit amounts should be reviewed for sufficiency with the loan amount. Shortages in coverage amounts should be eliminated by an individual policy.

(This frequently involves loans to individual condominium unit owners where flood insurance coverage is provided under a master policy in the name of the condo association.)

Flood insurance coverage is required for improved real estate, despite the location (height) of specific property, if the property is located in a special flood hazard area. For example, a 15th floor apartment requires the same coverage as a 1st floor apartment, provided all else remains the same.

4. The financial institution must also notify the borrower that flood insurance will be obtained by the financial institution, at cost to the borrower, if the borrower fails to purchase the insurance within 45 days after notification. (339.7) **(Proposed Rule)**
5. Determine whether the financial institution charges borrowers a "reasonable" fee for making a determination whether flood insurance is required. (339.8) **(Proposed Rule)**
6. Determine that flood insurance premiums are escrowed, as required, if a financial institution also requires the escrow of taxes, insurance premiums, fees or any other charges for a loan that is consummated and secured by residential improved real estate or a mobile home. (339.5) **(Proposed Rule)**

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

Equal Credit Opportunity	
1.	Determine that a written application was taken. (202.5(e))
2.	<p>Determine if the financial institution requests information regarding race, sex, marital status, and age.</p> <p>This information may be requested on the application or a separate form that refers to the application.</p> <p><i>NOTE: The applicant(s) should be requested but not required to provide the information. If the applicant(s) choose not to provide the information, that fact shall be noted on the form on which it was requested. The creditor shall then note the race and sex based on visual observation or surname, to the extent possible.</i></p> <p>(202.13)</p>
3.	<p>Determine that the financial institution provided the consumer with notice of the right to receive an appraisal, if the financial institution does not routinely provide appraisals as a course of business.</p> <p>Delivery of the appraisal should generally occur within 30 days of receipt of an applicant's request, receipt of the report, or receipt of reimbursement from the applicant for the report, whichever is last to occur. (Effective date was December 14, 1993, with optional compliance until June 14, 1994).</p> <p>(202.5a(2))</p>

Credit Practices	
1.	<p>Review the documents evidencing the credit obligation for the required notice to co-signers.</p> <p>If the notice to co-signers is contained in the note or disclosure, it must be clear, conspicuous, and substantially similar to that provided in the regulation and must be provided before the co-signer becomes obligated (227.14)</p>

**INTERIM
CONSTRUCT-
ION LOANS
(cont'd)**

**At or Before
Closing (cont'd)**

If the notice to co-signers is contained in a separate document:

- Interview applicable employees to determine if they are aware that the notice must be provided prior to the co-signers becoming obligated
- Review the financial institution's policies, procedures, and practices to ensure that staff members are aware that co-signers must be provided with the notice prior to becoming obligated

2. Determine that the following prohibited contract provisions are not included in contracts (or related documents) originated, or enforced in contracts acquired by the financial institution:

Confession of judgment
Waiver of statutory property exemption
Assignment of wages
Blanket security interest in household goods

(227.13)

Fair Credit Reporting Act

1. Ensure that any credit reports contained in the file were requested and used only as permissible and specified in the Fair Credit Reporting Act and for no other purposes. (607)

**CONSUMER
CREDIT**

The following procedures are to be used to review applicable consumer loans. Loan samples should be drawn in accordance with the sampling procedures. Ensure that your review includes only those loans which are \$25,000 or less and primarily for personal, family, or household purposes. Ensure all types of consumer loans are sampled, for example, simple interest, precomputed, single pay, balloon, etc.

**At or Before
Closing**

Ensure that the following disclosures for each loan sampled have been provided in relation to the noted time frames and regulations.

Truth In Lending (TIL)	
1.	Perform "General Truth in Lending Procedures" detailed in the Introduction to Approved Loans section of this manual.
2.	<p>The TIL disclosure will be made by the creditor before consummation. In certain residential mortgage transactions, special timing requirements are set forth. (226.17(b) and 226.19(a))</p> <p>a. Determine that the disclosures are grouped together, segregated from other material, and made clearly and conspicuously in writing in a form the consumer may keep. (226.17(a)(1))</p> <p>b. Determine that the terms "finance charge" and "annual percentage rate", when required to be disclosed with a corresponding amount or percentage rate, are more conspicuous than any other disclosure. (Those terms need not be more conspicuous than the financial institution's identity.) (226.17(a)(2))</p> <p>c. Determine the presence and accuracy of the following items in the TIL disclosure, as applicable:</p> <p><i>Refer to the appropriate Appendix of this manual for guidelines regarding APR calculations.</i></p> <p>The identity of the creditor making the disclosures (The creditor's name is sufficient; however, the address and telephone number can be included.) (226.18(a))</p> <p>The "amount financed", using that term, and a brief description, such as "the amount of credit provided to you or on your behalf"</p>

**CONSUMER
CREDIT
(cont'd)**

**At or Before
Closing (cont'd)**

The amount financed should be compared to the principal amount on the note. The amount financed should be less than the principal amount if origination fees or other prepaid charges were applicable, otherwise these amounts should be the same.

The amount financed is calculated by using the following procedures:

- Determine the principal loan amount or the cash price (subtracting any downpayment)
- Add any other amounts that are financed by the creditor and are not part of the finance charge
- Subtract any prepaid finance charge

(226.18(b))

A separate, written itemization of the amount financed except where a statement is included that the consumer has the right to receive a written itemization and the consumer has not indicated in a space provided that such an itemization is desired (226.18(c))

The "finance charge", using that term, and a brief description, such as "the dollar amount the credit will cost you". The finance charge should include all finance charges outlined in Section 226.4 (226.18(d))

The "annual percentage rate", using that term, and a brief description, such as "the cost of your credit as a yearly rate"

The APR should be within the allowed tolerance of 1/8 of 1% (0.125) for regular transactions and 1/4 of 1% (0.25) for irregular transactions (an irregular transaction is one that includes one or more of the following features: multiple advances, irregular payment periods, or irregular payment amounts (other than an irregular first period or an irregular first or final payment).

Refer to footnotes in Section 226.22 for more guidance (226.18(e) and 226.22)

**CONSUMER
CREDIT
(cont'd)**

**At or Before
Closing (cont'd)**

If the APR may increase after consummation in a transaction not secured by the consumer's principal dwelling or in a transaction secured by the consumer's principal dwelling with a term of one year or less, the following disclosures are required:

- The circumstances under which the rate may increase
- Any limitations on the increase
- The effect of an increase
- An example of the payment terms that would result from an increase

(226.18(f)(1))

The number, amounts, and timing of payments scheduled to repay the obligation

The number of payments multiplied by the amount of payments should equal the total of payments. The examiner should verify the number, amounts, and timing of payments with the legal document (226.18(g))

- The "total of payments", using that term, and a descriptive explanation, such as "the amount you will have paid when you have made all scheduled payments"

NOTE: Both the number and amount of payments, as well as the finance charge plus the amount financed should equal total of payments. The total of payments may be omitted in a single-payment transaction; however, this exception does not apply to a transaction calling for a single payment of principal combined with periodic payments of interest.

(226.18(h))

The fact that the obligation has a demand feature and that the disclosures are based on an assumed maturity of one year if no alternate maturity date is stated. This feature should only be utilized if the loan is truly made "on demand" for example the loan can be called at any time for any reason (226.18(i))

Refer to Regulation Z Official Staff Commentary.

**CONSUMER
CREDIT
(cont'd)**

**At or Before
Closing (cont'd)**

In a credit sale, the "total sale price", using that term, and a descriptive explanation (including the amount of any downpayment), such as "the total price of your purchase on credit, including your downpayment of \$_____" (This could be applicable to a residential mortgage when it concerns financial institution-financed other real estate (ORE).) (226.18(j))

A statement indicating whether a penalty may be imposed if the obligation is prepaid in full when the obligation includes a finance charge computed from time to time by application of a rate to the unpaid principal balance

If the obligation includes a precomputed finance charge, a statement indicating whether the consumer is entitled to a rebate of any finance charge if the obligation is prepaid in full. The prepayment penalty clause ideally should only be utilized on simple interest notes and the rebate clause should only be utilized on precomputed notes. However, when a simple interest note includes private mortgage insurance, the rebate clause should also be utilized.

(226.18(k))

Any dollar or percentage charge that may be imposed before maturity due to a late payment. This amount should be compared to what is specified in the note, to ensure the correct terms have been stated

(226.18(l))

The fact that the creditor has or will acquire a security interest in the property purchased as part of the transaction or in other property identified by item or type. For residential property, utilizing the "goods or property purchased" clause will suffice

(226.18(m))

To exclude certain insurance premiums from the finance charge the following conditions must be disclosed:

- For premiums for credit life, accident, health, or loss-of-income insurance:
 - (i) That the insurance coverage is not required by the creditor.

**CONSUMER
CREDIT
(cont'd)**

**At or Before
Closing (cont'd)**

(ii) The premium for the initial term of insurance coverage and if the term of insurance is less than the term of the transaction, the term of insurance also shall be disclosed.

(iii) That the consumer signed or initialed an affirmative written request for the insurance after receiving the disclosures specified above. Any consumer in the transaction may sign or initial the request.

These conditions can be contained within the credit insurance application form, as well as any other separate form.

(226.4 (d))

-- For premiums for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property:

(i) That the insurance coverage may be obtained from a person of the consumer's choice.

(ii) If the coverage is obtained from or through the creditor, the premium for the initial term of insurance coverage. If the term of insurance is less than the term of the transaction, the term of insurance shall also be disclosed.

(226.18(n) and 226.4(d))

The disclosures required to exclude certain security interest charges from the finance charge

If itemized and disclosed, the following charges may be excluded from the finance charge:

-- Taxes and fees prescribed by law that actually are or will be paid to public officials for determining the existence of or for perfecting, releasing, or satisfying a security interest

-- The premium for insurance in lieu of perfecting a security interest to the extent that the premium does not exceed the fees described above that otherwise would be payable

(226.18(o))

**CONSUMER
CREDIT
(cont'd)**

**At or Before
Closing (cont'd)**

A statement that the consumer should refer to the appropriate contract document for information about nonpayment, default, the right to accelerate the maturity of the obligation and prepayment rebates and penalties. This statement can usually be found in small print at the bottom of the "Fed" box (226.18(p))

If the financial institution requires the consumer to maintain a deposit as a condition of the specific transaction, a statement that the annual percentage rate does not reflect the effect of the required deposit. This does not apply to deposits earning 5% or more per year (226.18(r))

Credit Practices Rule

NOTE: These procedures apply to mobile home loans without real estate.

1. Review the documents evidencing the credit obligation for the required notice to co-signers.

If the notice to co-signers is contained in the note or disclosure, it must be clear, conspicuous, and substantially similar to that provided in the regulation and must be provided before the co-signer becomes obligated

(227.14)

If the notice to co-signers is contained in a separate document:

- Interview applicable employees to determine if they are aware that the notice must be provided prior to the co-signers becoming obligated
- Review the financial institution's policies, procedures, and practices to ensure that staff members are aware that co-signers must be provided with the notice prior to becoming obligated

**CONSUMER
CREDIT
(cont'd)**

**At or Before
Closing (cont'd)**

2. Determine that the following prohibited contract provisions are not included in contracts (or related documents) originated, or enforced in contracts acquired by the financial institution:

Confession of judgment
Waiver of statutory property exemption
Assignment of wages
Blanket security interest in household goods

(227.13)

Fair Credit Reporting Act

1. Ensure that any credit reports contained in the file were requested and used only as permissible and specified in the Fair Credit Reporting Act and for no other purposes. (607)

Preservation of Consumers' Claims and Defenses

1. Review any blank note forms furnished to dealers. Determine if the following required notice is included as part of the contract:

NOTICE

**ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS
SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE
DEBTOR COULD ASSERT AGAINST THE SELLER OF
GOODS OR SERVICES OBTAINED PURSUANT HERETO
WITH THE PROCEEDS HEREOF. RECOVERY
HEREUNDER BY THE DEBTOR SHALL NOT EXCEED
AMOUNTS PAID BY THE DEBTOR HEREUNDER.**

(432.2(a))

2. Review at least one note from each dealer from which the financial institution has purchased indirect paper since the previous compliance examination.

**CONSUMER
CREDIT
(cont'd)**

**At or Before
Closing (cont'd)**

Determine whether or not the contracts contain the following required notice without conflict with other contractual provisions:

NOTICE

ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.

(432.2(b))

3. Review relationships with dealers to determine if the financial institution is making "purchase money loans" as defined in the Rule: A purchase money loan is a cash advance which is received by a consumer in return for a "Finance Charge" with the meaning of the Truth in Lending Act and Regulation Z, which is applied, in whole or substantial part, to a purchase of goods or services from a seller who (1) refers consumers to the creditor or (2) is affiliated with the creditor by common control, contract, or business arrangement.

4. Review purchase money loans made since the previous compliance examination to determine whether the contracts contain the required notice without conflict with other contractual provisions.

**WORKPAPER
STANDARDS**

Standardized Workpapers must be completed when reviewing compliance with loan regulations. Refer to the Standardized Workpapers Appendix in this manual.



**FDIC LAW,
REGULATIONS
, & RELATED
ACTS**

Applicable Rules

Equal Credit Opportunity Act, Volume 2, Page 6610

Fair Credit Reporting Act, Volume 2, Page 6601

Fair Housing Regulations, Volume 3, Page 9633

Federal Reserve Board's Regulation B Official Staff Interpretations, Volume 2, Page 7241

Federal Trade Commission Act, Volume 3, Page 8551 (contains FTC Trade Regulation Rule Concerning the Preservation of Consumers' Claims and Defenses, Page 8554.01)

Federal Trade Commission Regulations: Statement of General Policy or Interpretation of the Fair Credit Reporting Act, Volume 2, Page 7179

Flood Disaster Protection Act of 1973, Volume 3, Page 8663

Home Mortgage Disclosure Act, Volume 3, Page 8687

National Flood Insurance Act, Volume 3, Page 8655

Part 338 – Fair Housing, Volume 1, Page 2647

Part 339 – Loans in Areas Having Special Flood Hazards, Volume 1, Page 2663

Part 3500 – HUD's Regulation X, Volume 3, Page 8891

Real Estate Settlement Procedures Act of 1974, Volume 3, Page 8855

Real Estate Settlement Procedures Interpretive Ruling, Volume 3, Page 8963

Regulation AA – Unfair or Deceptive Acts or Practices, Volume 3, Page 7869

Regulation B – Equal Credit Opportunity, Volume 2, Page 7209



**FDIC LAW,
REGULATIONS
, & RELATED
ACTS (cont'd)**

**Applicable Rules
(cont'd)**

Regulation C – Home Mortgage Disclosure, Volume 3, Page 7553

Regulation Z – Truth in Lending, Volume 2, Page 6641

Staff Guidelines on the Credit Practices Rule, Volume 3, Page 7875

Title VI of DIDCA – Truth in Lending Simplification and Reform Act,
Volume 3, Page 8546

Truth in Lending Act, Volume 2, Page 6565

Truth in Lending Official Staff Commentary, Volume 2, Page 6871

**Advisory
Opinions**

Application of Real Estate Lending Standards to Interim Construction Loan
for Low-Income and Elderly Apartment Housing, Letter #93-52, Volume 2,
Page 4789

Disclosure Requirements Upon Renegotiation of Fixed-Rate Mortgages, Letter
#87-31, Volume 2, Page 4272

Questions Concerning FDIC Enforcement of the Equal Credit Opportunity
Act, Letter #87-39, Volume 2, Page 4279

Riegle Community Development and Regulatory Improvement Act of 1994
Requires Use of Complete FEMA Map and Panel Number for Real Property
Offered as Collateral for Loan, Letter #95-1, Volume 2, Page 4913

**Statements of
Policy**

Equal Credit Opportunity and Fair Housing Acts Enforcement Policy
Statement, Volume 2, Page 5221

FFIEC Statement on the Home Mortgage Disclosure Act, Volume 2, Page
5303

**DCA
MEMORANDA**

Compliance Examination Procedures for Regulation Z in Response to Court
Ruling, Transmittal # 92-058, dated 4/17/92

Examination Procedures for Advertisements and Public Notices, Transmittal
#DCA-96-022, dated 2/22/96



**DCA
MEMORANDA
(cont'd)**

Examination Procedures for Loan File Review, Transmittal # DCA-96-023, dated 3/1/96

Examination Procedures for Loan-Related Regulations, Transmittal # DCA-96-006, dated 1/19/96

Examination Procedures for Verifying Truth in Lending Restitution Disbursements, Transmittal # DCA-96-005, dated 1/19/96

Flood Insurance Manual Revisions, Transmittal # 95-022, dated 8/8/95

Further Guidance on Finance Charge Tolerances Provided in 1995 Amendments to Truth in Lending Act, Memorandum to Regional Managers, dated 3/1/96

General Workpaper Standards and Standardized Workpapers, Transmittal # DCA-96-003, dated 1/19/96

Interim Procedures for Amendments to TIL – Regulation Z, Effective October 1, 1995, Transmittal # 95-028, dated 9/25/95

Pre-Examination Planning (PEP) Procedures, Transmittal No. DCA-96-013, dated 1/31/96

Revisions to Official Commentary Reg B – ECOA, Transmittal # 95-018, dated 6/15/95

Revised Exam Procedures for the Real Estate Settlement Act of 1974 (RESPA), Transmittal # 95-004, dated 2/17/95

Truth in Lending – Flood Determination Fees, Transmittal # 95-003, dated 2/3/95

Truth in Lending Disclosure for "Discounted" Adjustable Rate Consumer Mortgages, Transmittal # 148, dated 8/13/84



**FINANCIAL
INSTITUTION
LETTERS (FIL)**

Available Promotional Materials About Flood Insurance, Letter #90-93, dated 12/22/93

Equal Credit Opportunity: Appraisals and Enforcement, Letter #12-94, dated 2/28/94

Fair Credit Reporting Act: Policy Statement on Prescreening by Financial Institutions, Letter #62-91, dated 12/13/91

FEMA Standard Flood Hazard Determination Form (Part 339), Letter #53-95, dated 8/4/95

Flood Insurance – Clarification of Recordkeeping Requirements, Letter #29-90, dated 4/30/90

Flood Insurance: Proposed Standard Determination Letter Form, Letter #32-95, dated 4/14/95

HMDA – Amendments to Regulation C, Letter #22-93, dated 3/26/93

HMDA Data Required for Calendar Year 1994, Letter #4-94, dated 1/14/94

HMDA Data Required for Calendar Year 1995, Letter #02-95, dated 1/9/95

HMDA Data Required for Calendar Year 1996, Letter #2-96, dated 1/10/96

HMDA: Requirements Regarding Nondepository Mortgage Lenders and Applications Received Through Loan Brokers or Correspondents; Designations of Metropolitan Statistical Areas for 1994, Letter #69-93, dated 9/30/93

Home Mortgage Disclosure Act: "A Guide to HMDA Report" And Lobby Poster, Letter #34-95, dated 5/4/95

Home Mortgage Disclosure Act: A Guide to HMDA Reporting – Getting it Right, Letter #22-96, dated 4/15/96

Home Mortgage Disclosure Act – Federal Reserve Board Amendments to Required Annual Reports of Lending Activity, Letter #84-94, dated 12/28/94

Loan Servicing Errors in Adjustable Rate Loans, Letter #44-91, dated 9/13/91

New FDIC Guide to Compliance with the Fair Housing Act, Equal Credit Opportunity Act, Letter #47-94, dated 7/7/94



**FINANCIAL
INSTITUTION
LETTERS (FIL)
(cont'd)**

New Staff Commentary on HMDA Reporting Requirements, Letter #6-96, dated 2/13/96

Pamphlet on Home Mortgage Lending and Equal Treatment, Letter #19-93, dated 3/16/92

Proposed Revisions to Rules Governing Loans in Areas Having Special Flood Hazards (Part 339), Letter #75-95, dated 11/2/95

Revised "Guide to HMDA Reporting," Other Resources to Assist in Completing Requirements for Calendar Year 1994, Letter #51-94, dated 7/18/94

Revisions to Guidance on Fair Housing Rules (Part 338), Letter #23-92, dated 3/20-92

Temporary Changes in Waiving the Right to Rescission, Letter # 58-93, dated 8/13/93
